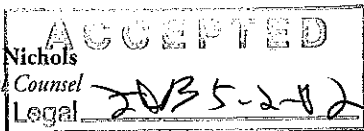




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RECEIVED

Lara Simmons Nichols  
Assistant General Counsel  
Legal



April 24, 2002 2:25 PM 1:56

2002-153-E

SC PUBLIC SERVICE  
COMMISSION

Duke Energy Corporation  
P. O. Box 1244 (PB05E)  
Charlotte, NC 28201-1244

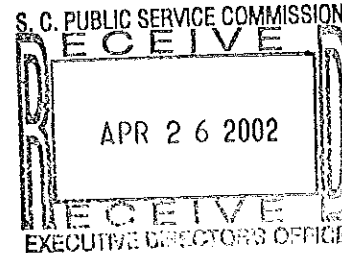
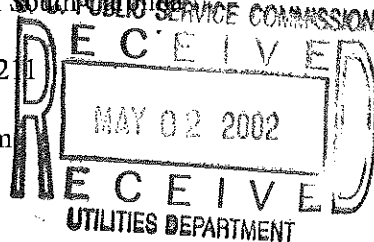
Mailing Address  
422 S. Church Street  
Charlotte, NC 28202-1904  
(704) 382-9960 OFFICE  
(704) 382-8137 FAX  
lsnichols@duke-energy.com

128498

Mr. Gary E. Walsh, Executive Director  
Public Service Commission of South Carolina  
P.O. Drawer 11649  
Columbia, South Carolina 29211

Re: Levelized Billing Program

Dear Mr. Walsh:



Duke Power, a division of Duke Energy Corporation (Duke), proposes to offer a new program in response to market research that indicates that some customers would value a program that provided electric bill certainty. While Duke is filing this program under the name "Levelized Billing Program," the Company will likely market the program under a different name. Enclosed are the original and 19 copies of Duke's Levelized Billing Program for approval by the Commission.

Electric customers have traditionally been billed on a volumetric basis: using more electricity costs more money, based on the customer's tariff. Customers, especially small customers, are assigned to a tariff by virtue of the characteristics of their load (including, but not limited to, their fuel source for heating and water heating) and usually have few options. Today, consumers are used to many choices in most areas of their lives. Duke's market research indicates that at least 10% of Duke's residential customers would be very interested in a product that offered a set monthly bill amount for electric service because of the value these customers place on bill certainty. Therefore, Duke is filing for approval of the Levelized Billing Program. This product offers customers electric service at a fixed dollar amount each billing period for one year, regardless of the amount of electricity used. There is no "true-up" for deviations of actual usage from expected. This program differs from Duke's Equalized Payment Plan (EPP) which equalizes payments over a year but does require a true-up to actual usage at year end.

Customers who elect to participate in the program will benefit from this product for a number of reasons. First, they will know with certainty the amount of their monthly bill during the contract period. This facilitates budgeting and such practices as payment by automatic bank draft. Second, they are no longer at risk due to factors beyond their control such as weather variation. The benefits to Duke include improved customer satisfaction and decrease in high bill complaints.

Duke proposes to offer this program to residential customers in good standing served on Duke's RE or RS Rate Schedules who have been in their residence for the past 24 months. In rare cases, Duke may allow a customer to participate with between 12 and 24 months usage history at his residence. The offer will be for one year's service, renewable by mutual agreement, and will be customer-specific. The offer will be based on each individual customer's usage history, adjusted to reflect normal weather conditions and expected changes in usage and thus will recover the expected costs of serving the customer. A key component of the offer will be a customer-specific analysis of his or her weather sensitivity, resulting in a customer-specific estimate of normal usage.

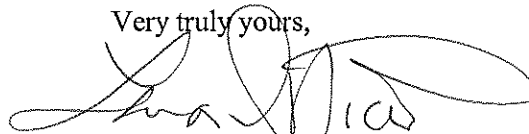
The proposed program is consistent with cost-based pricing principles. The three components of the Levelized Billing price are the usage charge, the risk premium and the administrative fee. Each of

these is cost-based. Each customer's Levelized Billing offer will be priced according to their standard tariff for which they would otherwise qualify, but based on expected rather than actual usage. Use of expected rather than actual usage is acceptable since: (1) expected usage includes anticipated response to use of the rider; (2) the product includes a risk premium to recover the increase in uncertainty about the degree of cost recovery relative to the standard tariff; and (3) the term of contract is limited to one year at a time. (In the event of abuse, which the Company believes will be rare, the program will allow the Company to remove a customer whose usage is more than 30% greater than expected in each of three consecutive months.) The offer will also include a fee of \$1.00 per month to cover the administrative costs of the Levelized Billing Program and a cost-based risk premium to cover the risk Duke undertakes in offering the program. Duke's initial year calculation of the risk premium is 4.4%. The Company anticipates that it will update the risk analyses after obtaining experience with the Levelized Billing Program and may seek approval to modify the risk premium periodically. Additionally, the Company will incorporate data from initial customers to better predict expected usage and risk for new and continuing customers, thereby increasing benefits to all.

This product, in variants quite similar to the Company's proposed structure, is available at a small number of other utilities. Indianapolis Power and Light and Georgia Power Company have two years' experience or more with such service and have thus demonstrated its technical feasibility. Both utilities have been through at least two rounds of regulatory approval for their experimental programs. In addition, a number of gas companies offer similar products.

Duke proposes to offer the Levelized Billing Program on a "program year" basis. In other words, Duke will offer the program (presumably at least once annually) to eligible customers. Duke proposes to begin its first program year as early as September 1, 2002. In order to have customers enrolled and ready to bill by September 1, the Company will need several months to prepare and mail quotes and give customers time to respond. Therefore, Duke requests approval by May 15, 2002 in order to meet the Company's September 1 target.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Lara Simmons Nichols', with a large, sweeping flourish extending to the right.

Lara Simmons Nichols  
Assistant General Counsel  
Karol P. Mack  
Assistant General Counsel

LSN/fhb  
Enc.

## LEVELIZED BILLING PROGRAM (SC)

## AVAILABILITY (South Carolina only)

Available on a voluntary basis, at the option of the Company, to residential customers in residences, served on rate schedule RS or RE who have resided at the residence and have kilowatt-hour (kWh) usage history for twenty-four (24) consecutive months and who have a satisfactory payment record. The Company reserves the right to offer this program to customers with a minimum of twelve (12) months' usage history. This program is not available for customers receiving concurrent service on Schedule WC, or to customers who have been served on Schedule WC during the most recent 24 months.

## PROGRAM PROVISIONS

Under this program, the Company will estimate the monthly kWh usage for the ensuing 12 month period based on the Customer's previous historical metered usage, adjusted to reflect normal weather and for expected changes in usage. The Customer's expected usage for each month will be calculated on the Customer's applicable rate schedule. The resulting sum of the expected monthly bills, plus a 4.4 % risk fee, will be divided by 12, and a \$1.00 per month administrative fee will be added to determine the Levelized Billing to be paid by the Customer each month in lieu of charges for the actual kilowatt-hours used calculated on the Customer's applicable rate schedule.

If the Customer is not currently a Customer on the Levelized Billing Program, the Company shall provide to the Customer the calculation of the Levelized Billing amount for the Program Year and the minimum, maximum and average monthly charges the Customer has paid in the previous 24 months. If the Customer currently is a Customer on the Levelized Billing Program, the Company shall provide to the Customer the current and new Levelized Billing amounts and the minimum, maximum and average monthly charges the Customer would have paid in the previous 24 months in the absence of the Customer's participation on the Levelized Billing Program. The Levelized Billing amount will not include usage or charges for additional services including but not limited to load control, outdoor lighting, or other separately metered services. Service under this program requires that the customer enroll prior to the beginning of a specified "Program Year" as determined by the Company.

## PAYMENT

The monthly bill rendered under this program is due and payable in accordance with the applicable Residential Rate Schedules and Service Regulations of the Company. The charges associated with additional services (such as load control and outdoor lighting) will be determined in accordance with the applicable rate schedules for such service.

## CONTRACT PERIOD

Service under this program shall commence with the first billing period of a designated "Program Year", each year for a minimum one-year term, renewable annually, at the option of both parties. Each year prior to the anniversary of the original contract, the Company shall review the Customer's account, and prepare a new Levelized Billing amount for the following contract year. The new Levelized Billing amount for the next year and the information described above shall be provided to the customer at least 30 days prior to the end of the then current Program Year. A new Levelized Billing contract and amount will commence each successive Program Year unless terminated by the Customer or the Company.

(over)

(LEVELIZED BILLING PROGRAM (SC) continued)

The Customer may terminate the contract at the end of any Program Year at no charge. The Customer may terminate at any time during a Program Year with written notice to the Company to be effective the next billing cycle. In addition, the Company reserves the right to terminate the Customer's service under this program if the Customer's actual kWh usage in each of three consecutive months exceeds the estimated usage by 30% or more, or for any other violation of this program.

If a customer requests to be removed from the program during a Program Year and continue service on a standard tariff at the same location or if the Company removes a customer for excessive usage or other violation of the program, the Customer will be charged a \$30.00 termination fee. If a customer ceases to receive service at the same location, no termination fee will be charged.